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C O N F I D E N T I A L SECTION 01 OF 03 BELGRADE 000737

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SUBJECT: AMBASSADOR'S 5/24 MEETING WITH DEPUTY PRIME
MINISTER DJELIC

Classified By: CLASSIFIED BY AMBASSADOR MICHAEL C. POLT FOR REASONS 1.4
(B) AND (D)

¶1. (c)SUMMARY: AMBASSADOR MET WITH DEPUTY PRIME MINISTER DJELIC ON MAY 24 TO REVIEW HIS PLANS FOR CARRYING OUT THE NEW GOVERNMENT'S ECONOMIC PROGRAM. UPBEAT AND ENERGETIC - TO THE POINT OF BEING COCKY - DJELIC EMPHASIZED THAT HE WOULD INVEST HEAVILY IN BUILDING GOOD RELATIONS WITH DIFFERENT PARTS OF THE GOVERNMENT, INCLUDING THE PRIME MINISTER AND HIS FREQUENT RIVAL, ECONOMY MINISTER AND G17 LEADER DINKIC. ON POLICY ISSUES, HE EMPHASIZED THAT THE GOS WILL SEEK RESUMPTION OF SAA TALKS WITH THE EU BEFORE PRESENTING ITS REVISED 2007 BUDGET TO THE PARLIAMENT IN THE SECOND HALF OF JUNE. AMBASSADOR REMINDED DJELIC THAT THE SECRETARY FACES AN END-MAY DECISION ON CERTIFYING SERBIA'S ICTY COOPERATION AND DESCRIBED COOPERATION TO DATE AS INADEQUATE. ON ECONOMIC POLICY, DJELIC SAID THAT THE GOS WOULD MOVE IMMEDIATELY TO RESTART PRIVATIZATION OF STATE OIL COMPANY NIS AND INSUROR DDOR. HE WAS CAUTIOUS ON PROSPECTS FOR AN IMF PRECAUTIONARY PROGRAM, SAYING THAT THE GOS WOULD CONSULT WITH THE FUND TO SEE WHETHER ITS REVISED BUDGET WAS CLOSE ENOUGH TO IMF PARAMETERS TO SUPPORT A NEW PROGRAM. DJELIC IS SMART AND ENERGETIC, BUT NEEDS MORE TIME TO ABSORB THE REALITIES OF THIS ODDLY CONSTITUTED GOVERNMENT AND SERBIA'S PRECARIOUS RELATIONSHIPS WITH THE INTERNATIONAL COMMUNITY BEFORE HE CAN REALISTICALLY HOPE TO ACCOMPLISH HIS ASSIGNED TASKS. END SUMMARY

¶2. (SBU)Ambassador Polt held a one-hour introductory meeting with an ebullient Deputy Prime Minister Djelic on May 24. Djelic, the top-ranking Democratic Party official in the new Kostunica government and a former finance minister and banker, used the meeting to explain how he sees his role in the new government and set out his key goals. Building a strong relationship with the Prime Minister to buttress his role as the "clear no. 2 in the government," without reference to party distinctions, would be key, he said, and he already had invested considerable time to working out the relationship with Kostunica, whom he described as "very business-minded." The former Credit Agricole banker also noted that he was working to build a better relationship with Economy Minister Dinkic. President Tadic also will be brought into key economic decisions, he added.

¶3. (c)Djelic, whose formal appointment is as deputy prime minister for EU integration, said lamented the fact that ICTY Prosecutor Carla Del Ponte would be his charge when she arrives in Belgrade on June 4 to discuss ICTY cooperation, but he also said that the exchange of documents with the Hague tribunal already had been restarted. Djelic said he

had been surprised to learn that this exchange had more or less ceased in November. "The whole story is absurd," he said.

¶4. (c) Restarting Stability and Association talks with the EU before presenting a new budget to Parliament in the second half of June would be important, Djelic said. This would permit the new government to show results and armor itself against Radical charges that Serbia's Western friends would not support the new government. The deputy prime minister argued that the entire episode with appointment of Radical leader Nikolic as Parliament speaker had served a purpose in demonstrating to all Serbians what a Radical government would be like, with status as a Russian province. Now the new government must show Serbia that it will move forward on integration, he said, so the bar should not be set so high as to deny Serbia this step forward. U.S. support of the new coalition would be important, he added.

¶5. (c) The Ambassador agreed on the importance of restarting SAA talks, stating that both the U.S. and the EU are looking for reasons to move forward. The U.S. faces a decision on whether it can certify Serbia's ICTY cooperation and thereby avoid withholding part of our assistance. Handing Djelic the USG's 11-point suggestions on active steps for ICTY cooperation, the Ambassador reminded Djelic that the so-called action plan of the previous government had yielded no results. The U.S. would like to lean forward, the Ambassador said, but we need a visible signal of Serbia's determination to find Mladic and reinvigorate ICTY cooperation, not "vague assurances."

¶6. (c) One of the next steps for the Spring Coalition government would be the decree on National Security Council operations. Reform of the security services in general would

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be a DS priority, Djelic said. He pointed out that Tadic already had said publicly that Rade Bulatovic was too identified with partisan politics to remain as the "professional" head of the BIA intelligence service. The sentencing on May 23 of the killers of former Prime Minister Dzinjic had brought home to DS leaders the importance of reforming the security service: "This cancer has to be put out." He added that completion of the Stambolic (the murdered former Communist leader) prosecution is a priority.

¶7. (SBU) Besides EU integration, his portfolio will include coordination on all economic and financial issues, relations with the IMF and other international financial institutions, charting a course on sustainable development, and coordinating the fight against poverty, Djelic said. President Tadic had defined his role as "prime minister in waiting," Djelic optimistically said, and it was important that he lead by working through and supporting ministers and not attempt to run individual ministries.

¶8. (SBU) With regard to IFI cooperation, Djelic pledged a "radical acceleration" of cooperation with the World Bank, seeking to close five loans based on more favorable IDA terms before the window closes with the end of the Bank's fiscal year on July 1. He also said that the GOS would work out a country economic memorandum with the Bank. With regard to the IMF, the deputy prime minister was more circumspect, noting that when a high-ranking IMF delegation official arrives in June, the GOS will present its budget to see whether it could provide the basis for an IMF precautionary agreement. (Note: the April Fund mission targeted a budget turnaround of 5 percent of GDP, and Djelic has said publicly that he is skeptical.)

¶9. (SBU) The GOS will move forward with privatization of the first tranche of Naftna Industrija Srbije, the state oil company, Djelic said. It also will restart the suspended tender for DDOR Novi Sad, one of the two state-owned insurors

that dominate the market. The GOS also should move to sell the other remaining banks and non-financial institutions, including Dunav insurance. (Note: Dunav is controlled by a key political associate of Prime Minister Kostunica; the GOS has yet to announce which party will control which state-owned companies.) Djelic said he expected the German G8 presidency to single out Ukraine and Serbia for work on capital market reforms, he added.

¶10. (SBU) Foreign investors also would be a key constituency for the new government, Djelic said. The problems of existing investors would be solved, because he understands quite well that the most important assessment of Serbia's business climate is that of established investors, whose views potential investors usually solicit. The government would honor its commitments to Philip Morris, he added. Ambassador Polt interjected that corruption is a key obstacle for foreign investors, raising the current Ocean Atlantic issue as one example. The USG had invested USD 12 million in commercial court reform and was disappointed with the handling of the bankruptcy sale from which the U.S. investor sought - unsuccessfully - to buy development property. Djelic said that he was aware of this issue and pledged to resolve it. When looking at the Commercial Court, he added, the glass is not half full, but rather pretty empty.

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¶11. (SBU) When the deputy prime minister mentioned that he looked forward to working again with U.S. assistance programs, Ambassador Polt ran down USG priorities: job creation, which absorbs 70 percent of our assistance, strengthening of democratic institutions, by which we include civil society, and rule of law. Another priority is exchanges, especially for youth, to help overcome the isolation that Serbia has endured over the past 15 years. In general, the U.S. assistance program has moved away from work with the central government, the Ambassador added, to focus more on municipalities and the private sector.

¶12. (SBU) Ambassador Polt also raised the restitution law that the outgoing government had approved in one of its last acts. Djelic immediately criticized it as a "crazy law," especially in its promise of EUR 4 billion in compensation. It is time for the GOs to address this issue, he said, but the draft must be revised. Ambassador Polt noted that the Embassy would provide comments on the current draft law, and

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he urged addressing the issue before it became another major political liability for Serbia.

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